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Chief, Manufacturing Sectors Branch

25 August 1959

Acting Chief, Industrial Division, ORR

Project 32.488, Postwar Industrial Investment in East Germany

1. This project not only develops an investment series for the GDR during 1950-55, but also interprets the assigned role of the major branches of the industrial sector. The former goal is achieved with great skill and requires no comment. The treatment of investment in the branches of the industrial sector is generally successful, but is necessarily abbreviated in a report of this scope. In particular, the discussion of developments during the Second Five Year Plan varies in quality and depth and needs to be smoothed out. Rather than expand the paper to include discussion in greater detail of the branches of industry, it is suggested that these subjects be discussed in a more analytic and purely economic sense in terms of the decisions implicit in the investment program, as suggested below.
2. The validity of the major interpretation of the paper, that emphasis on the basic metal industries was subordinated after 1953, is supported by ample evidence. The project tends to accept, however, the GDR propaganda line that the major object of this shift was to improve consumer welfare, with a subsidiary accent on fuels and power. It should be stressed, as indicated by the data in the project, that publicity to the contrary notwithstanding, the absolute increases in consumer oriented investment were dwarfed by allocations to the fuel and power industries.
3. Mention is made of the shift from metal to labor intensive industry, but it is confined to the machine building branches. In a broader context it appears that the GDR has maneuvered to reduce the need for investment in the capital intensive materials industries as well, a fact that should be developed and emphasized.
4. In this connection it would be good to show the shift in Soviet policy during the Second Five Year Plan from exploitation to support of the GDR economy. Note could be made of the loans, trade agreements, and in particular, the Soviet underwriting of the GDR materials deficit. The effect of the planned oil pipeline to Eastern Europe on requirements for investment in the brown coal industry should be considered.

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East Germany

5. Exploration of these suggestions should facilitate the treatment of the allocation of limited GDR investment funds in such economic terms as relative advantage, rapidity of return, and bloc specialization. This should not be interpreted as requiring a search for additional data, but an integrating and interpreting of the data now presented.

6. Consideration should also be given to graphic presentation of the trend in total investment and investment by major branches of industry. To meet Office regulations some kind of dollar equivalent for the DME must be shown, albeit with reservations, if desired.

25X1A9a 7. I subscribe to your own comments and am attaching a list of specific suggestions, which I shall be happy to discuss with you and [REDACTED] at your convenience.

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[REDACTED]

**Attachment**

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